OFFICIAL ASIM PUBLICATION

The National Insurance Buyer

CORPORATE INSURANCE MANAGEMENT

• AN INFORMED BUYER IS A BETTER BUYER •

Vulcan — Symbol of a City — Birmingham (Alabama)
(Photo: Courtesy Birmingham Chamber of Commerce)

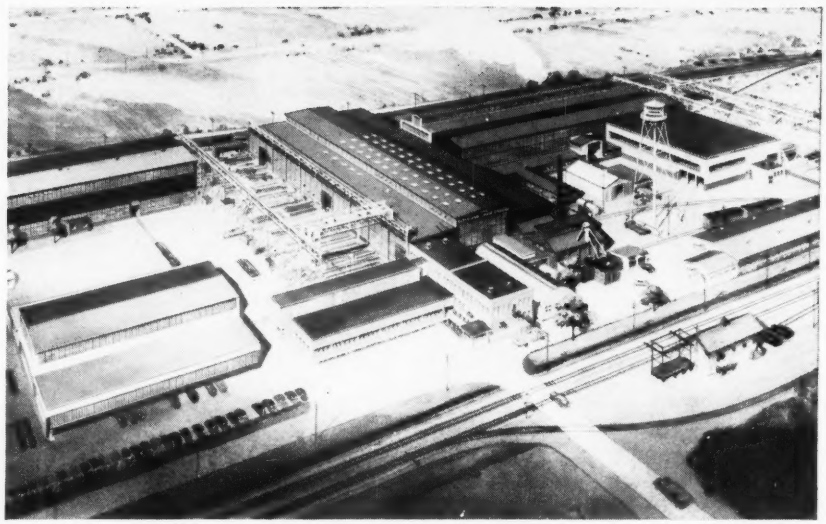
AMERICAN SOCIETY OF INSURANCE MANAGEMENT

Volume 7 July 1960 Number 4

"ADT Automatic Protection provides us with dependable safeguards against fire in every section of our plant. We are happy to relate that we are obtaining this protection at a saving of approximately $12,000 annually."

William J. Ryan

Assistant General Manager



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OFFICIAL ASIM PUBLICATION

The National Insurance Buyer

CORPORATE INSURANCE MANAGEMENT

Linda Burke, Editor

Eight West Fortieth Street, New York 18, N. Y.

We Honor . . .

Alabama Society of Insurance Management, Inc., a chapter of The American Society of Insurance, Inc.

Although this chapter was organized in December of 1959 and is the newest of the chapters of The American Society of Insurance Management, Inc. it serves notice and challenge to other chapters to watch its efforts.

It may be young, but it is ambitious and The *National Insurance Buyer* is proud to honor this fine chapter and dedicate this July 1960 issue to its members.

About the cover . . .

Vulcan, largest iron statue in the world, stands as a silent symbol of Birmingham, "Industrial City Beautiful". The statue is unique because it is symbolic of the indomitable spirit of a city which was fashioned into a teeming metropolitan area of 640,600 people in only 89 years from its founding.

Standing atop a mountain red with native iron ore, dotted with the green of towering trees, and framed in the blue of her skies, the giant god of the forge lifts his torch to the heavens above the valley of the city proper.

Into the valley and mountains of Birmingham are woven the traditional warmth of Southern charm, exhibited in such shrines as Arlington, ante-bellum mansion, and the progressiveness of modern day Birmingham, displayed in such manifestations as the amazing 10½ block Medical Center, the fastest growing in the South.

Vulcan is the inanimate symbol of the city. The animate spirit of Birmingham rest on a newly-formed vehicle, the Centennial Committee, which is planning a ten year Plan for Progress to reach its climax on the city's 100th birthday in 1971.

A blend of the old and new . . . of industry and beauty . . . of traditionalism and progress . . . this is Birmingham, Alabama.

In This Issue . . .

The National Insurance Buyer, published bi-monthly (January, March, May, July, September and November) as the official publication of The American Society of Insurance Management, Inc., 8 West 40th Street, New York 18, New York. Linda Burke, Editor. *Subscription $5.00 a year. Advertising rates on request.*

Alabama Society of Insurance Management, Inc.

a chapter of

The American Society of Insurance Management, Inc.

In December of 1959 approximately 15 buyers of corporate insurance in Alabama met at the Vulcan Materials Company with Mr. W. Howard Clem, President, and Mr. T. V. Murphy, Vice President, of The American Society & Insurance Management, Inc. for a discussion to determine the need for and the formation of a chapter in Alabama.

The interest was so great and the national officers so dynamic and thorough in their explanation of the benefits that during that first meeting it was voted to form a chapter, and officers for the new chapter were nominated and elected and when the personable Mr. Clem and Mr. Murphy were ready to leave Birmingham they left behind them a dedicated group of men who were already at work.

Also in this meeting the new chapter recommended Mr. Robert G. Kenan of the Southern Natural Gas Company as a regional vice president and Bob has since been approved and formally serves in that capacity.

Mr. Kenan has been very active, having corresponded and talked with a number of the national officers, and through his efforts new ideas and projects are in the making.

Monthly night meetings have produced some outstanding programs on a broad interpretation of corporate insurance buying. Speakers of national import have given outstanding programs at each meeting.

Officers of Alabama Society of Insurance Management, Inc. seated left to right: M. G. Jackson (Vulcan Materials Company) president; Robert G. Kenan (Southern Natural Gas Company) a director of Alabama Society of Insurance Management, Inc., and regional-vice president of the American Society of Insurance Management, Inc.; Harold J. Wilson (The Birmingham News) secretary-treasurer; and John R. Hall (Southern Services, Inc.) vice president.

Three representatives of the Alabama Society of Insurance Management attended the New York semi-annual meeting of ASIM and, even though this is a young chapter, it is ambitious.

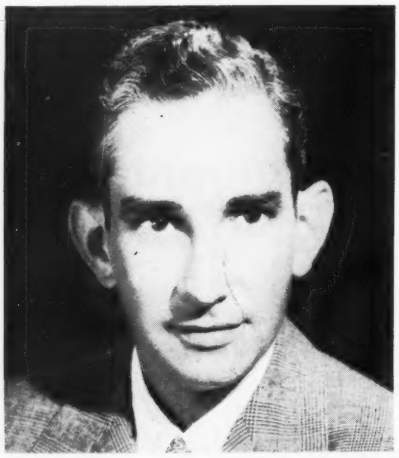
Officers

The officers of Alabama Society of Insurance Management, Inc., ASIM, are: President: M. G. Jackson, Vulcan Materials Company; Vice President: John R. Hall, Southern Services, Inc.; and Secretary-Treasurer: Harold Wilson, Birmingham News.

(More on Page 4)

Alabama

(From Page 3)



Harry de la Torre (Jack Cole Company) a director of Alabama Society of Insurance Management, Inc.

Company Members

Alabama Gas Corporation
Alabama Power Company
American Cast Iron Pipe Company
The Birmingham News
Jack Cole Company
EBSCO Industries
Gulf States Paper Corporation
Harbert Construction Company
Ingalls Iron Works Company
Saunders Truck Leasing Co.
Southern Natural Gas Company
Southern Services, Inc.
Vulcan Materials Company
Western Grain Company

The Story Of Vulcan

One of America's most remarkable monuments is the gigantic figure of Vulcan, the mythological god of metal-working, which, from a mountain top, looks down on the city of Birmingham, the iron and steel center of the south.

The statue of Vulcan was born of the inspiration of an idea for an exhibit of the Birmingham District at the Louisiana Purchase Exposition at St. Louis in 1904. It was designed by the famed Italian sculptor Guiseppe Moretti, who had been commissioned by the Birmingham Chamber of Commerce to create a symbol of this community of minerals and metals.

At St. Louis, the towering figure of Vulcan attracted the attention of the throngs at the fair and Birmingham received wide publicity. It was then returned to Birmingham where it ultimately was erected atop Red Mountain in a location of dramatic beauty to be visible to the hundreds of thousands who make their homes in this happy valley.

Except for the Statue of Liberty in New York harbor, no other statue in this country is comparable with its great proportions. From foot to the tip of the outstretched hand, the statue is 55 feet. It stands upon a pedestal 124 feet high so that the monument as a whole, rises to a height of 179 feet, which is taller than Niagara Falls. Since the statue is planted on the crest of a mountain, Vulcan surveys the city of Birmingham from an elevation nearly six hundred feet, or just over the height of the Washington Monument, the tallest shaft in America.

A torch has been placed in the outstretched hand of Vulcan, which burns green except if an automobile fatality occurs in Birmingham, when red becomes its color for that day.

The statue of Vulcan is also unique in the fact that it is the largest iron figure ever cast. It was cast from Birmingham iron and in Birmingham foundries. Because of its enormous weight, 120,000 pounds, it was cast in several sections. Separate molds were made of the head, arms, torso and legs and these were welded together. Each foot is seven feet long by three feet wide and would scale ten thousands pounds. The massive head alone required over six tons of iron. The pedestal on which Vulcan is anchored, is sixty tons of stone, heavy steel reinforcing bars and concrete.

Not only is the statue one of unusual attractiveness, it is one of the few monuments in the world erected, not to commemorate an event or to perpetuate the memory of a person, but to symbolize an industry, that of mining of coal and ore, the quarrying of limestone, the making of iron and steel and the fabrication of these materials into finished products. The Romans had a god for it — Vulcan, the deity of all who dealt with fire, minerals and metals. Always he is depicted with hammer and anvil, a mighty blacksmith, who fashioned the chariots for the warriors of the Olympian host, and welded the spears with which the gods and demi-gods made war.

Fifth Annual

RISK MANAGEMENT INSTITUTE

co-sponsored by
The American Society of Insurance Management, Inc.
and
The University of Connecticut

September 15th, 16th, 17th
at
Hartford, Connecticut

The "Weekly Underwriter" says . . .

One of the young organizations in the insurance business that has, in the space of ten years, made a profound impression on the business, is the American Society of Insurance Management, Inc. Originally, it was incorporated in 1950 as the National Insurance Buyers Association, and five years later the present title was adopted.

Peter A. Burke is the managing director, and it is largely through his organizing ability, and support given by many top corporate managers of insurance, that it now has important stature that must be recognized throughout the industry.

The Society's influence can be seen in its 25 chapters throughout the United States (and Canada), with a membership of more than 1,000, representing about 65 per cent of the corporate managers.

This is an organization with which the insurance business must fully cooperate.

(The Weekly Underwriter, May 28, 1960 Vol. 182, No. 22 — page 1075)

How **protection in depth** helps cut compensation costs

Did you share in these $24,500,000 insurance savings?

You did — if Liberty Mutual handled your workmen's compensation insurance last year.

There are two good reasons why Liberty's compensation policyholders each year save so many millions of dollars. First, it's a matter of record that Liberty Mutual keeps its operating expenses far lower than the average for all other companies in this field. Second, Liberty offers its policyholders the sweeping benefits of protection in depth.

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Travel Insurance

Erwin C. Jones

Erwin C. Jones is Supervisor of Insurance and Assistant Secretary of the Southern California Edison Company, the largest electrical utility company in Southern California, with home offices in Los Angeles.

Born and educated in Cleveland, Ohio, he joined the Edison Company in 1921 and in 1923 was assigned to the Insurance Division. Upon returning from four years World War II service with the U. S. Coast Guard as a Lieutenant Commander, he was again assigned to insurance work. As a member of his Company's Fire Prevention Committee, an attendant with the Accident Prevention Committee of his Company, together with his generous services in the activities of the Southern California Chapter of the ASIM, he is most qualified in his work as insurance buyer for his Company.

Active in sports, he is secretary of the Los Angeles Yacht Club and an ardent sailor of the Pacific waters.

by
Erwin C. Jones
Supervisor of Insurance
Southern California Edison Company
Los Angeles, California

Travel insurance is as extensive and complicated as the subject of world travel itself. They are synonymous. They both may be divided into two general categories, namely, business travel and pleasure travel. Here again the terms are similar, but the insurance coverage is negotiated differently. As most of us are employees of some corporation, we will first review business insurance.

Business Insurance

Until World War II, most long distance travel involved rail transportation whereas short trips were usually made by automobile. Neither of these common forms of transportation were considered very hazardous, so little if any thought was given by business to travel insurance. The person traveling usually depended upon his own life or accident insurance for protection. The use of air travel during the war and the rapid development of commercial airlines thereafter completely changed our mode of travel. Today a few hours hop by plane is equivalent to several days and night of travel by rail or auto.

In prewar days, air travel was considered by most people to be

(More on Page 12)

Captive Insurance Companies

by
F. M. Reiss, President
American Risk Management, Inc.
Youngstown, Ohio

A captive Insurance Company may be defined as a wholly owned Insurance Subsidiary with a primary function of insuring the outstanding exposures and risks of the Parent Organization.

The motives for forming such an organization are as follows:

1) The obvious tax advantage of a Captive Insurance Company as versus a self insurance program. A parent organization can pay premiums to its own captive insurance company to establish reserves for potential losses and deduct such premium payments from its taxable income. In self insurance, the parent organization must establish such reserves out of its net profit *after* taxes.

2) Many Captive Insurance Companies have been formed to insure exposures that the normal world wide market of insurance will not accept. An example is the case of gunpowder and other explosive manufacture and storage exposures. A captive insurance company was formed to insure these exposures and, while the direct market of insurance would not accept the risk, the Captive Insurance Company was able to obtain Catastrophe Reinsurance.

3) Another reason that has been a motivating force behind the formation of a Captive Insurance Company is to obtain broader forms of coverage than the direct market is able to provide due to limitations in filings. As an example, one Captive Insurance Company insures its Fire and Boiler & Machinery, Direct Damage and Use and Occupancy in one policy under one form subject to a single deductible. The policy is reinsured in both London and American Markets on an across the board basis. No direct market of Insurance can, as yet, write such a policy.

4) The most compelling reason for forming a Captive Insurance Company is the direct savings effected by the purchase of reinsurance as versus direct insurance. One of the direct savings is the aquisition cost of the business. Obviously, a Captive Insurance Company needs no sales force, brokerage or Agency plant or advertising program. The average cost of sales of direct insurers can be as much as 30% of the original net premium. Also, the Home Office overhead of a Captive Insurance Company is considerably less than that of a direct insurer. There is no need in a Captive Insurance Company of maintaining a large staff of examiners, claim supervisors, accountants and numerous other clerks — this cost averages 18% of the original net premium for Direct Insurance Companies. On the other hand, without cutting their premium, Reinsurers are willing to allow credits for such expenses in establishing the reinsurance premium even

(More on Page 20)


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Hartford 2, Connecticut

Federal Regulation of the Insurance Industry

by
John R. Maloney
Attorney at Law
and
Former California Insurance Commissioner

(Address Before the Northern California Chapter, ASIM, April 1960)

John R. Maloney

John R. Maloney is a native Californian and San Franciscian, born in 1914. He received his education in the local schools in San Francisco and attended the University of San Francisco from which he holds a Degree of Bachelor of Laws "with distinction."

Until five years ago, his entire business career was with the Insurance Department of the State of California in which he rose to positions of increasing responsibility. At the higher levels, he held the positions of Principal Examiner, Chief Legal Deputy, Chief Assistant Insurance Commissioner, and, finally, Insurance Commissioner by appointment of then Governor Earl Warren. He served in the cabinets of both Governor Warren and Govenor Knight.

In February of 1955 Mr. Maloney left the state government and joined the law partnership now known as Weinstock, Anderson, Maloney & Chase, whose specialty is the practice of insurance law. He also holds a public accountant certificate from the State of California, but does not actively practice in this field.

During his service with the Insurance Department and as Insurance Commissioner, Mr. Maloney was active in the affairs of the National Association of Insurance Commissioners at the time of and during the period immediately following the decision of the United States Supreme Court in the Southeastern Underwriters case and was one of the working committee (of which his partner Sidney Weinstock and his successor, Commissioner McConnell, were also members) that played an important role in the drafting of the California Insurance Regulatory Law adopted in 1947. Since his departure from the office of Insurance Commissioner of the State of California, Mr. Maloney has continued to attend the semi-annual meetings of the National Association of Insurance Commissioners and is quite familiar with the issue of federal versus state regulation of the insurance business.

Suffice it to say that during the infancy and early development of the insurance industry in the United States, it had come to be understood by those engaged in handling insurance transactions that they were not engaged in "commerce". Furthermore, since the production, sale and servicing of insurance was not regarded as "commerce", such activities were not considered to be "interstate commerce" when conducted across state lines.

This legal concept was sanctioned by judicial construction dating as far back as 1869, beginning with the decision of the United States Supreme Court in the case of Paul vs Virginia. Even the National Association of Insurance Commissioners through its committee on Preservation of State Regulation, recognizes in retrospect that this concept produced an anomolous situation. While other segments of our economy were subject to the Sherman Anti-Trust Act, the Clayton Act, the

(More on Page 16)

Travel Insurance — Jones

(From Page 6)

very hazardous, a point of view shared by life and accident insurance companies, whose policies excluded indemnity while the insured was flying.

In the late 40's and early 50's a few of the insurance companies, recognizing a lucrative premium field, installed coin insurance machines at the air terminals. Before starting on a flight it was customary for the traveller to deposit all the quarters in his pocket in such a machine. The blank insurance policy was then completed and a copy mailed to his family.

When management started adding up the quarters that appeared on expense accounts, they soon instructed the insurance department to suggest some better plan. Some employees would buy the maximum insurance which might not be commensurate with their salary or job, while others, in higher positions, would buy the minimum. The person who usually just makes the plane by the skin of his teeth didn't have time to buy any insurance. Thus, at best, this type of insurance was very limited in coverage for the employee and his family and very expensive for the Company.

As flying became the accepted way to save valuable time, and management required more people to use air travel, it occurred to both the employee and to management that it was not fair to ask an employee to leave the sanctuary of his job for the hazards of flying. At least not without insurance coverage to compensate for the more hazardous employment conditions. It soon became the practice to cover all such air travel by special insurance. All employees or class of employees enjoyed similar limits of insurance, the coverage was automatic and the over all expense was less.

In the early 50's there were only two or three insurance companies that would write air travel policies. Their premiums were based on so much per dollar for fares spent. There was nothing wrong with this manner or rating. It gave the carrier a yardstick of the flying being done by the company personnel, the company a lesser cost than that produced by the quarter machines and the employee a fixed, reasonable amount of insurance at no cost to him. It avoided that eternal last minute question "Am I covered by insurance." Today, premiums are usually negotiated and are far more reasonable than those paid on the original policies.

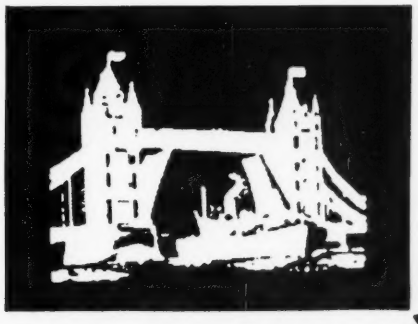
Air travel insurance can be taken out by corporation as group policies in several forms, such as a straight life insurance, straight life with medical expenses, weekly indemnity including dismemberment benefits, or on a reimbursement plan in excess of Workmen's compensation to a stipulated amount.

Straight life, of course, is a lump sum payment. Medical exenses usually have a top limit such as $5,000 or $10,000 and are for the purpose of paying actual expenses for medical or surgical treatments, hospital bills, etc., only to the stipulated amount.

Weekly indemnity and dismemberment benefits are usually amounts paid per week for a stipulated number of weeks. Careful consideration should be given to the handling of payments by the insurance company under either the medical or the weekly indemnity and dismemberment policies. If the company maintains a medical department or contracts and pays for medical service, the policy must be so written that the company may be reimbursed for such expense. If an accident occurs outside the company's medical jurisdiction and the employee is subject to expenses before he can come under the company's medical plan, such employee should be reimbursed. In some cases such expenses are billed to and paid for by the corporation which, in turn, should be reimbursed by the insurance company.

The same might also apply to weekly benefits. If the corporation continues to pay the employees salary it has the right to be reim-

(More on Page 34)



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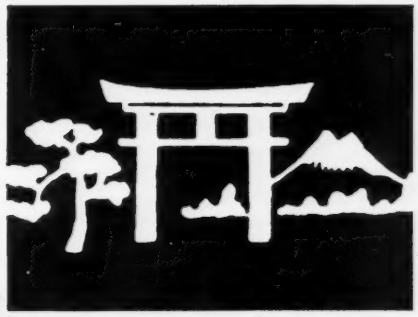

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Montreal Chapter Elects Alan A. Sharp President

Alan A. Sharp

Alan A. Sharp of Distillers Corporation-Seagrams Limited, was elected president of Montreal Insurance Buyers Association, a chapter of The American Society of Insurance Management, Inc. at a meeting held on May 19th.

Colin W. Perry of Canadian Marconi Company is vice-president and Glen Buchanan of The Shawinigan Water and Power Company was re-elected Secretary-Treasurer.

Mr. Sharp was recently appointed a regional vice president of the American Society of Insurance Management, Inc.

Cincinnati Area Insurance Managers, ASIM, Elect Hilliard J. Fjord President

The Cincinnati Area Insurance Managers, a chapter of The American Society of Insurance Management, Inc., has elected Hilliard J. Fjord, The Western & Southern Life Insurance Company (*General Insurance Committee*), president for the 1960-1961 term.

Other officers are: Thomas N. Fisher, The Fifth Third Union Trust Company, vice president; Haven G. Everill, Cincinnati Gas & Electric Company, treasurer; and Paul K. Dykes, Ohio River Company, secretary.

Allen D. Brosius Is President of Minnesota Chapter, ASIM

At the annual meeting of Minnesota Chapter of the American Society of Insurance Management, Inc. held on May 17th, Allen D. Brosius of Minneapolis-Honeywell Regulator Company was elected president of Minnesota Chapter, ASIM.

Serving with Mr. Brosius are Julian Mageli, Nash-Finch Company, vice president; M. Scott Rhodes of Owatonna Canning Company, Secretary-Treasurer; and Miss Lillian K. Polzin as Administrative Secretary.

Hold-over Directors are: Allen D. Brosius, M. Scott Rhodes, Julian Mageli, and David E. Hinton of Wood Conversion Company.

Newly-elected Directors are Paul W. Kolbe of General Mills, and Richard C. Utter of Northrup, King & Company.

Harold Keyes Is Elected President of Central Massachusetts Chapter, ASIM

Harold F. Keyes of Brown & Sharpe Manufacturing Company has been elected president of Central Massachusetts Chapter, ASIM.

Other officers are: Charles G. Gould of Bay State Abrasive Products Company, vice president; Robert R. Neilson of Morgan Construction Company, secretary; and John L. Mattson of Fitchburg Paper Company, treasurer.

Directors are: Ward H. Cann of Grinnel Corporation; Henry C. Merriam of The Vellumoid Company; and J. Mason Washburn of Draper Corporation.

Donald W. Berry Is President Of New York Chapter, ASIM

Donald W. Berry

At the meeting of New York Chapter, ASIM, on May 26, 1960, Donald W. Berry of the Borden Company was elected president of New York Chapter, succeeding Robert Schellerup.

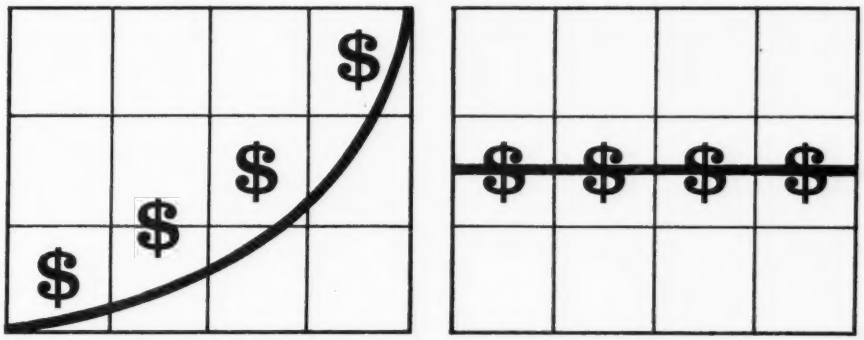
Serving with Mr. Berry for 1960-1961 are: James S. Southwick, 1st vice president (Ethly Corporation); Robert S. Gyory, 2nd vice president (General Telephone & Electronics Corporation); Raymond A. Severin, treasurer (American Metal Climax, Inc.) and Joseph T. Smith, secretary (Union Carbide Corporation).

Directors

Re-elected to the Board of Directors were Don Berry; Edward Dilworth (Lever Brother Company); and John Nees, Bigelow-Sanford Company, Inc.).

Newly elected directors are: Edmond C. Alheit, The American Can Company; Robert Chapman, The Chemstrand Corporation; John M. Collins, The Coca-Cola Export Corporation; Miss Mildred C. Congdon, Esso Standard Oil Company; Andrew S. Hall, General Analine & Film Corporation; William A. Mason, Gibbs & Hill, Inc.; Walter H. Nangel, Celanese Corporation of America; and Miss Marie Turro, The Great Lakes Carbon Corporation.

THE MOST EXPENSIVE PENSION PLAN IS NO PLAN



Increasing cost of retirement without a pension plan

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Delay in installing a plan to meet the retirement problem of your employees can mean increased cost to your business.

You can make a good start today by getting in touch with us. For over 35 years we have been designing sound pension plans for business and industry. And we believe we can help you. ■ Call our local office or write us for one of our pension booklets, *Pensions Today* or *Pension Design*. Connecticut General Life Insurance Company, Hartford.

CONNECTICUT GENERAL

Federal Regulation—Maloney

(From Page 10)

Robinson-Patman Antidiscrimination Act and the Federal Trade Commission Act, insurance was not. Insurance was granted an immunity not possessed by any other industry which engaged in business that extended across state lines.

During the many years that this legal concept prevailed, a system of supervision or regulation of the insurance business by the several states developed, strong and effective in some jurisdictions and — shall we say — less strong and less effective in others.

On June 5, 1944, a truly momentous day for the insurance industry and insurance supervision in the United States, judicial sanction ceased for this legal concept of many years standing that exclusive jurisdiction to regulate and supervise insurance resided in the states. On that day the United States Supreme Court handed down its decision in the Southeastern Underwriters Association case which held the business of insurance to be commerce and, when conducted across state lines, interstate commerce.

Obviously, the decision opened to question and possible attack as illegal and invalid a great deal that the insurance industry and state regulatory authorities had done on the theory that insurance was not subject to the Sherman, Clayton, Robinson-Patman and Federal Trade Commission Acts. Instantaneous reconversion was impossible and a period of re-adjustment was regarded as essential.

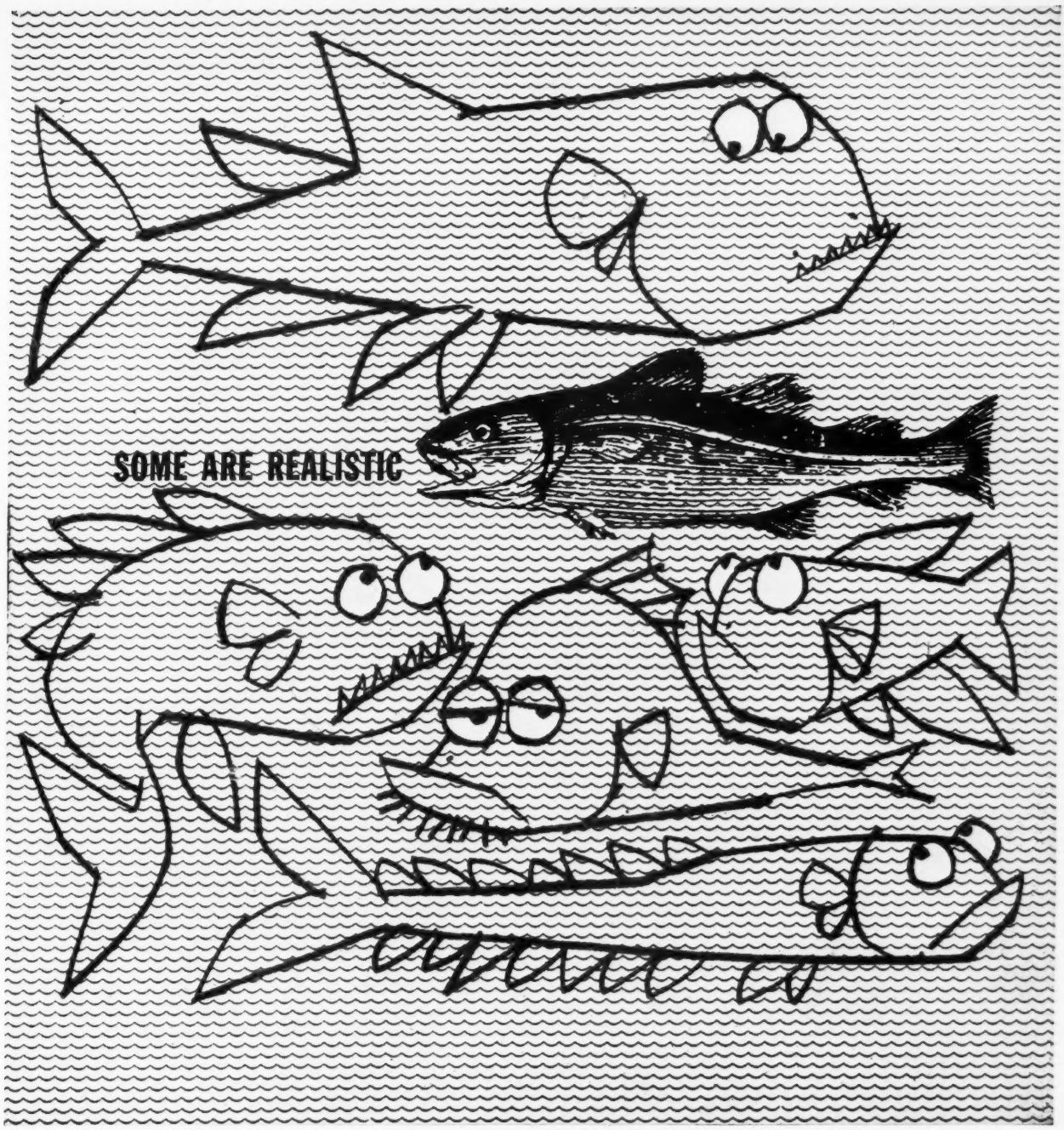
All of us know, I am sure, what followed next. During its 79th Session in 1945, the Congress enacted and President Roosevelt signed into law what we know today as Public Law 15, declaring that the continued regulation and taxation of the business of insurance by the several states is in the public interest, that the provisions of the Sherman Act proscribing boycott, coercion and intimidation shall remain applicable to the business of insurance, and that, otherwise, the Sherman, Clayton, Robinson-Patman and Federal Trade Commission Acts shall apply to the business of insurance after June 30, 1948, only to the extent that such business is not regulated by state law. Since the principal restraints on competition indited in the SEUA case as illegal found their basis in concert of action in rate making, the separate states immediately set about to enact rating laws that permitted this, but subject to regulation and supervision by the state insurance commissioner. Most of the states also enacted fair trade practices acts regulating trade practices and advertising in the insurance business, a field otherwise covered by the Federal Trade Commission Act.

What, then, the uninformed may ask, is all the hullabaloo about concerning federal regulation of insurance? If Congress declared in Public Law 15 that continued regulation of the business of insurance by the several states was in the public interest, and the states have adopted insurance regulatory legislation covering the fields occupied by the Sherman, Clayton, Robinson-Patman and Federal Trade Commission Acts, doesn't or shouldn't that end the matter?

As to whether it shouldn't have ended the matter, I can only answer that there are respectable differences of opinion. But whether it should or shouldn't have ended the matter, the realities of the situation are that it did not and has not. And understandably so, in my opinion as a lawyer and former state insurance administrator. It shall be a purpose of my remarks to explain why this is so.

The holding of the United States Supreme Court in the Southeastern Underwriters case established as a principle the supremacy

(More on Page 18)



A realistic approach to Group Life Insurance is an asset—indeed, a business necessity. That's why Prudential developed a plan that provides this approach:
Prudential Realistic Amounts Group Life Plan
—Low cost—Issued up to 1½ times annual earnings ($40,000 maximum in most states)—Usually non-medical
—Employer's contributions ordinarily tax deductible.

For more information call your Prudential Agent, Broker or the Prudential Group or Home Office nearest you.

THE FUTURE BELONGS TO THOSE WHO PREPARE FOR IT · THE PRUDENTIAL HAS THE STRENGTH OF GIBRALTAR · A MUTUAL LIFE INSURANCE COMPANY

The Prudential
INSURANCE COMPANY OF AMERICA

TO OVER 35 MILLION PEOPLE—**INSURANCE** MEANS **PRUDENTIAL**

Federal Regulation—Maloney

(From Page 16)

of the power of Congress to regulate insurance, so far as it was interstate in character or affected interstate commerce.

During the pendency of the SEUA litigation a bill known as the Bailey-Van Nuys Bill was introduced in the Congress which would have given the insurance industry complete exemption from the federal anti-trust laws. But this bill was not enacted into law; instead, Congress enacted Public Law 15 largely on the recommendation of the National Association of Insurance Commissioners.

First and foremost, it should be noted that Public Law 15 expressly declares that the provisions of the Sherman Act proscribing boycott, coercion and intimidation shall remain applicable to the business of insurance. Federal regulation in these areas is, therefore, an actual reality. And this federal regulation is being vigorously enforced by the U. S. Department of Justice as evidenced by the prosecutions commenced by it against the Insurance Board of Cleveland, The New Orleans Insurance Exchange and The Investor's Diversified Services. Closer to home, but strictly on the civil side, is the litigation in the local federal district court alleging concert of action in reducing agents' commissions, in which the court has ruled that the amended complaint states a cause of action under the Sherman Act.

Federal regulation of the insurance industry is also a reality in the areas occupied by such other federal statutes as the National Labor Relations Act, the Fair Labor Standards Act, the Postal Laws including the mail fraud provisions thereof, and, as respect securities issued by insurers, the Securities Act of 1933 and the Investment Company Act of 1940. While these federal regulations apply to the insurance business only incidentally, they nevertheless constitute federal regulation of the insurance industry to the same extent as other industries transacting business in interstate commerce or affecting interstate commerce.

True it is that Public Law 15 was a federal affirmation that the continued regulation of insurance by the several states was in the public interest. But this statement of policy was conditioned upon the states accepting the invitation contained therein, namely, to deal effectively and affirmatively with those activities and practices which might otherwise be the subject of federal regulation.

A report of the House Judiciary Committee on the bill that ultimately became Public Law 15 included the following comment:

> "Nothing in this bill is to be so construed as indicating it to be intent or desire of Congress to require or encourage the several states to enact legislation that would make it compulsory for any insurance company to become a member of rating bureaus or charge uniform rates. It is the opinion of Congress that competitive rates on a sound financial basis are in the public interest."

In singing Public Law 15, President Roosevelt's message stated in part:

> "After the moratorium period, the Anti-trust Laws and certain related statutes will be applicable in full force and effect to the business of insurance except to the extent that the states have assumed the responsibility, and are effectively performing that responsibility for the regulation of whatever aspect of the insurance business may be involved. It is clear that Congress intended no grant of immunity for monopoly or for boycott, coercion, or intimidation. Congress did not intend to permit private rate fixing which the Anti-Trust Act forbids; but was willing to permit actual regulation of rates by affrmative action of these states."

Almost all of the rating laws adopted by the various states following SEUA are patterned, with

(More on Page 28)

The vigorous and progressive Cessna Aircraft Company is typical of the thousands of forward-looking firms now placing business insurance through the vast network of the Insurance Service Association.

Professional insurance counsel and coverage for growth companies

Whether your firm's growth is in the present or future, this modern insurance method is worthy of review. The Insurance Service Association is a network of strong, local, independent agents and brokers . . . banded together to provide their clients local insurance service at the international level. The member-firms of this association assure you on-the-spot engineering, inspection and claims service wherever you may expand across the North American continent. That is why thousands of the most respected names in commerce and industry now look to the Insurance Service Association for professional insurance counsel and coverage.

"every office a home office"

Contact a member-firm near you *soon*. They will send you literature which fully outlines their service. Or, if you prefer, a principal will arrange to meet with you at your convenience.

INSURANCE · Service · ASSOCIATION

Insurance Service Association

Captive Insurance — Reiss

(From Page 8)

though the Captive Insurance Company may not spend such money for such services.
Our own experience dictates that the savings can amount to as much as 66⅔% as versus the cost of direct insurance even in a "Superior" or Minimum Rate type Market.
If this difference or savings is accrued in a Captive Insurance Company, the result will be rapid financial growth of the Insurance Subsidiary with the resultant tempting capital gains possibilities in the event of liquidation. Even without liquidation, the Captive Insurance Company represents, at all times, a substantial ever increasing fund of credit for the Parent Organization.

At present, there are over 50 Captive Insurance Companies operating within the United States. Their record has been outstanding. Only four companies have liquidated and, in my own opinion, the reason for such liquidation has, in almost every case, been the improper selection of hazards as the subject to insure.

The most successful Captive Insurance Companies have selected risks over which the Parent Company can exercise a degree of loss control as the subject of insurance. Fire Insurance on Buildings, Equipment and Stock, Inland Marine exposures, Boiler and Machinery exposures and Use & Occupancy exposures have responded extremely well for Captive Insurance Companies. Generally, Automobile and Public Liability Insurance has not been a fit subject for Captive Insurance Companies. In such fields, direct Insurance Companies can more economically supply loss adjustment and defense of suit than can a Captive Insurance Company. Captive Insurance Companies that have insured the Parent Company's Auto and Public Liability exposures have had a notable lack of success in their attempt to provide service. One such Company had to enter 44 States, accept assigned risks and pay substantial retainers to claims attorneys and independent adjusters. Their reinsurance costs were excessive and, in the end analysis, their costs exceeded that of comparable direct insurance.

Workmen's Compensation Insurance has, also, responded well for Captive Insurance Companies. While there is little or no savings in reinsurance costs as versus direct excess and aggregate policy costs, the Captive Insurance Company does retain the loss reserves and benefits from the substantial investment earnings, before taxes, on these reserves.

Some Captives have insured Employees Accident and Health programs quite successfully. Reinsurance costs are very low since only catastrophe reinsurance is usually purchased. The principal advantage in having a Captive Insurance Company handle such a program as versus self insurance is that the employee is dealing with an Insurance Company rather than the Parent Company. Hence, if and when a dispute over a claim arises, it is far less likely that the matter will become a grievance for the Parent Company.

Only one Captive Life Insurance Company is in operation and that Company was formed in 1959. I'm sorry that I do not have any details about the Company or its results at this time.

Reinsurance

The success of any Captive Insurance Company depends primarily on its ability to secure adequate reinsurance, at attractive terms in responsible reinsurance markets. The reinsurer represents the hidden assets of a Captive Insurance Company. Since the reinsurer will fare as the direct insurer fares, the reinsurer is vitally interested in the basis of operation of the Captive Insurance Company. The Reinsurer will want to know what is the basis of the rates and premiums being charged by the Captive Insurance Company. He will, also, want to know the complete past

(More on Page 24)

NO PLACE FOR HONEST SWEAT

Welcome to the curious world of electronics, where men work in glass houses on instruments so sensitive that merely the sweat from their fingers could prove harmful.

At least, that's how it is at Varian Associates. The instrument is a klystron microwave tube, about to be brazed in a hydrogen atmosphere inside that glass housing. This is the magical tube invented by Sigurd and Russell Varian in 1938—the tube that paved the way to wartime radar and that postwar corporate phenomenon, Varian Associates.

Where once there was but one klystron tube, there now are 132 different types. Scarcely a missile is without a Varian klystron and the firm continues to pioneer other developments equally vital to the nation's protection.

And who protects Varian? An insurance pioneer named INA. Founded in 1792 . . . but with views as new as the space age, and insurance programs to match.

If you'd like a pioneering approach to *your* protection problems . . . if you'd like precision-engineered insurance . . . talk with your broker or any INA agent. Get the facts about Insurance by North America.

INSURANCE BY NORTH AMERICA INA

Insurance Company of North America • Indemnity Insurance Company of North America • Life Insurance Company of North America • World Headquarters: Philadelphia

"Verdict Against the Jurors"

Pennsylvania's Washington County, once famous as the center of the Whiskey Rebellion of 1791, is back in the limelight, again for reasons of rebellion. This time the dissidents are not farmers, up in pitchforks over a federal tax on home-made whiskey, but large insurance companies. Many of them are rebelling against writing accident policies in the county. Their reasons may apply to the U.S. generally.

According to a special survey by the insurance committee of the state chamber of commerce, jury awards in Washington County automobile-accident suits were a whopping 204 per cent higher than those in eleven other Pennsylvania counties of similar size studied for the same period of time (1953-58). Indeed, Washington County juries awarded more than a quarter of the $6 million total handed out by all twelve counties. Does this mean that Washington County roads or drivers are more dangerous than the roads or drivers of the other counties? Not at all. Washington, in fact, ranked eighth among the twelve in number of accidents.

The explanation is that Washington County juries are simply damage-happy. Observers point to the county's so-called "repeater jury" system, by which a juror serves twice or even three times a year instead of once or twice a decade, as in other counties. Among these "professional jurors" the notion has got around that the insurance companies will always foot the bill, no matter how steep. The truth is, of course, that the sky-high awards come out of the pockets of the jurors and their fellow citizens. A family man in Washington County who drives his car to work pays up to 100 per cent more for liability insurance than he would in Lancaster County — though Lancaster ranks highest among the twelve in traffic deaths, and is far above Washington in number of accidents.

In the past decade liability-policy premiums in the U.S. have almost doubled. This cannot be accounted for by increases in the rate of accidents. Instead, the rates are based on the level of jury verdicts. Washington County is an extreme example of a nationwide tendency on the part of juries to fix damages in accordance with the ideas of plaintiff's lawyers."

"Savings are Vital"

Say the Posts, Owners of North Star Bus Lines

MR. AND MRS. WM. M. POST

"In this highly competitive business it is important that cost be controlled without sacrificing high service standards. To this end, we have been able to effect an important economy in our insurance costs and still get the security and broad protection we require by placing our Fleet Coverage, Workmen's Compensation and Fire Insurance with Michigan Mutual Liability Company."

North Star Lines, operated by the Posts with headquarters in Grand Rapids, has a fine fleet of modern buses. These units operate on scheduled runs in Western and Northern Michigan. In addition, North Star has a fleet of highway post offices and extensive charter bus operations.

Safety programming and rigid standards of vehicle maintenance hold North Star losses to a minimum, as a result, insurance rates are correspondingly low.

Why not get a Michigan Mutual proposal on your business insurance needs? Learn how Safety Engineering, Claims Service and mutual savings can reduce your insurance costs and improve your insurance service.

MUTUAL BUILDING
DETROIT 26, MICHIGAN
FOUNDED 1912

Michigan Mutual Liability Company

AUTOMOBILE • FIRE • HOMEOWNERS • WORKMEN'S COMPENSATION • INLAND MARINE • GENERAL CASUALTY INSURANCE

Captive Insurance — Reiss

(From Page 20)

five year loss history of the risks to be assumed by size, frequency and peril. He will, usually, insist upon joint loss adjustment provisions in the reinsurance policy. If the risk is a supervised risk, he will definitely be interested in how the Captive plans to provide such services as Fire Prevention Inspection or Boiler and Machinery Inspections before agreeing to accept any liability. In addition, the reinsurer will need estimates of Probable Maximum Losses, Maximum Possible Losses and total exposure to loss calculated by a person or firm fully familiar with Underwriting procedures.

Once the Reinsurer is satisfied on such points and commits himself to the contract, he judges the direct insurer on a much narrower base than does a direct insurer. Basically, he is interested in receiving his statistics and premiums in accordance with his reinsurance contract. He is very much interested in seeing that losses are promptly reported, adequately but not excessively reserved and expeditiously settled within the reserves.

The reinsurance market is a world wide market. There are over twenty domestic American Reinsurance Companies. The primary market of Reinsurance is in London, England, however, there are many fine Swiss, Dutch, German and Scandinavian Reinsurers operating here in America.

In addition to allowing credits from the original net premium for cost acquisition, home office overhead and inspection service, previously mention, it is not unusual for a reinsurer to share with the Captive the profits of the reinsurance on a "Contingent" basis calculated against the earned to incurred loss experience.

Generally, reinsurance can be purchased in three types; Treaty, Excess of Loss (deductible) or Catastrophe. I must emphasize that Captive Insurance Companies should not purchase reinsurance on the same basis as direct writing companies. Such Companies have a far wider spread of risk and larger premium volume than any Captive can hope to obtain by writing only its Parent Company. Therefore, the reinsurance program of a Captive Insurance Company must be "Tailor made" or, inevitably serious trouble will result from over exposure to the Captive.

It is extremely difficult to determine just how large is the reinsurance market. We have succeeded in placing treaties without any top limit of liability. The reinsurance market is very flexible and, hence, I would be the last person to say that any given reinsurance program could not be placed but, through experience, I have found given dimensions in the Reinsurance Market and, therefore, careful analysis of each Captive Insurance Company must be made before approaching a Reinsurance Market.

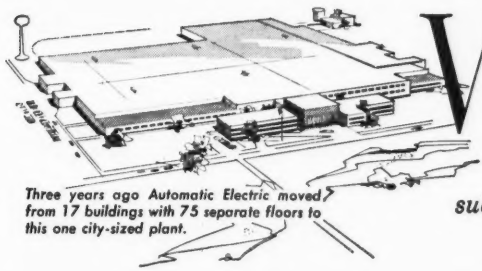
I have been asked many times "How much premium volume is necessary in order to interest the Reinsurance Market". This is a very difficult question to answer because the Reinsurance Market is interested in premium only as it relates to Underwriting exposures. Very generally, however, I would say that the minimum original net premium being charged by the Captive Insurance Company should be at least $100,000 per year. However, we have successfully placed a reinsurance Treaty for a Captive Insurance Company at very attractive terms where the original net premium is less than $70,000.00 annually.

Reinsurance is done in the utmost of good faith and, therefore, at the inception and throughout the life of a relationship between a Captive and its Reinsurers, full information should be readily supplied by the Captive. We have found that the more information supplied to a reinsurance market the better. The results are better terms and greater confidence. When and if a serious loss occurs, if the basic information has accurately been given to the reinsurer, he will not cancel. In actual practice, we have found the staying power of reinsurers far better than that of direct insurers. Again I wish to reiterate, before proceeding with the formation of a Captive Insurance Company make certain of your reinsurance.

Most Captive Insurance Companies are organized with minimum capitalization according to the laws of the state in which the Insurance Company is domiceled. State laws vary widely on this subject. As an example, Illinois requires capital and surplus of $500,000.00 for a Fire Insurance Company while Kentucky only requires $150,000. However, Illinois has no premium tax while Kentucky charges a 2% tax on domestic companies. Most states do not attempt to regulate reinsurance, except in regard to the establishment of Loss Reserves and Unearned Premium Reserves. New York probably is the most difficult in this regard. However, before selecting the state in which to organize a Captive Insurance Company the Insurance Code of the State should be carefully scrutinized not only in regard to minimum capitalization requirements but, also, for any restrictions that could effect your reinsurance program. As an example, if Lloyd's are to be the source of reinsurance, they are authorized only in Illinois and Kentucky. In almost all other states no credit can be taken for payments made to Lloyd's in unearned premium reserves and any liability assumed by Lloyds by virtue of reinsurance for outstanding losses is not deductible from Loss Reserves. It is, therefore, possible that a small Captive Insurance Company could be insolvent at the end of its fiscal year in a state that would not permit credit for payments to and from Lloyds, whereas, in Kentucky and Illinois, the Company would be in a very healthy condition. In addition, some states will not permit the use of unauthorized reinsurance in any form until the Captive Company is at least five years old. This fact, alone, could defeat the purpose of organizing a Captive Insurance Company. Therefore, we come back again to the importance of the Reinsurance program in establishing size of Company and selection of the State in which said Company will be domiciled.

(Concluded on Page 26)

35-ACRE "TELEPHONE CITY" BEGAN WITH A COLLAR BOX AND A PAPER OF PINS

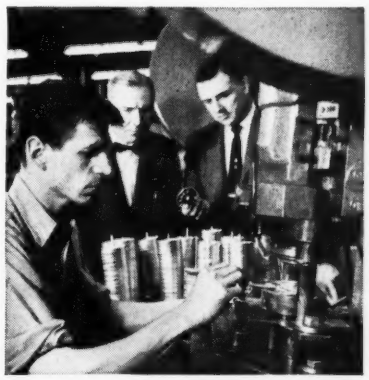


Three years ago Automatic Electric moved from 17 buildings with 75 separate floors to this one city-sized plant.

Wausau Story

at **AUTOMATIC ELECTRIC**—*Northlake, Illinois*
subsidiary of General Telephone & Electronics Corporation

The modern dial telephone is a development of Automatic Electric. The company is the major source of supply for the Independent telephone industry.



Employers Mutuals' punch press specialist, Frank Hausman (center) and Eugene Dymek, Automatic Electric's Safety Director, check the operations at a press where dial faces are punched out. All equipment of this kind is carefully guarded, well lighted, and the operators are trained to keep accidents from happening.

* * *

Employers Mutuals of Wausau has offices all across the country. We write all forms of fire, group and casualty insurance (including automobile). We are one of the largest and oldest in the field of workmen's compensation. Consult your telephone directory for the nearest Wausau Man or write us in Wausau, Wisconsin.

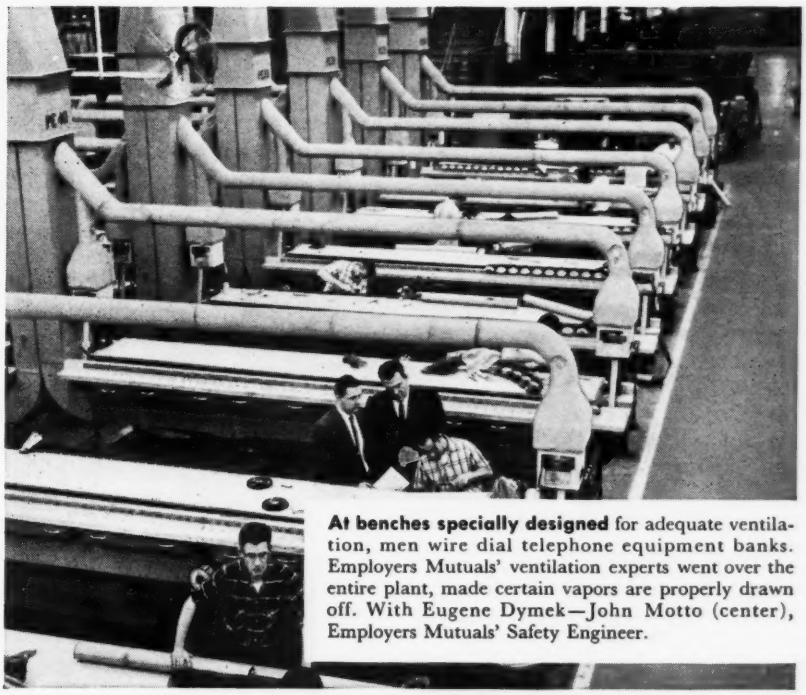
by **R. B. WILTSE**
Automatic Electric's Insurance Buyer

"It was almost 70 years ago that Almon B. Strowger used a collar box and a paper of pins to demonstrate that telephone connections could be made without the help of an operator.

"Using Mr. Strowger's switch as the basis, Automatic Electric originated the dial telephone in 1892. That is only one of many contributions to modern telephony the company has pioneered. Today our 35-acre plant at Northlake is devoted to the development and manufacture of telephone instruments, equipment for telephone exchanges and other products for communications, and in automation and electrical controls. And to do this work, the services and skills of almost 8000 people are required.

"This is a city in itself, planned not only for efficiency . . . but also so our people could work with comfort and safety. But safety is a continuous job. It requires the full time of our own safety directors as well as the cooperation of men representing the company that carries our workmen's compensation insurance. That's Employers Mutuals of Wausau.

"From the time we moved into this new plant, Employers Mutuals men have been part of our team. They've proved the efficiency—yes, and the economy—of having a good insurance carrier. We know that we get full value for our insurance dollar from Employers Mutuals. They're 'good people to do business with'."



At benches specially designed for adequate ventilation, men wire dial telephone equipment banks. Employers Mutuals' ventilation experts went over the entire plant, made certain vapors are properly drawn off. With Eugene Dymek—John Motto (center), Employers Mutuals' Safety Engineer.

Employers Mutuals *of* **Wausau**

"Good people to do business with"

Captive Insurance — Reiss

(From Page 24)

Assuming that you have decided to proceed with the formation of a Captive Insurance Company and have secured adequate insurance, the next important question that must be resolved is the selection of the type of Company to be formed. Basically, there are three types of Corporate structures; Stock, Reciprocal and Mutual. Most Captive Companies in existence are Stock Companies for good and sufficient reasons. The primary reason for forming a Stock Insurance Company rests in the fact that 100% of the Stock is owned by the parent Company. In a Mutual Company, the policy holders own the Company and in a Reciprocal Company, the policy holders have individual accounts for all of their policies both past and present. Therefore, the Stock Insurance Company assures complete ownership by the Parent Company that may not be true in either a Mutual or Reciprocal Company.

If in the life of a Captive Insurance Company the Parent Company decides to liquidate the Captive in order to release the accrued profits for use in the Parent Company's operations, the liquidation procedures of a Stock Company are clearly drawn out by law and follow a well travelled path. In a Mutual Company, the State liquidation laws are very unclear to say the least. How a Mutual Company liquidates is so unclear that, I personally know of three Mutuals that have been dormant for a period of ten years and permission to liquidate has not yet been granted. We, personally, have never recommended formation of a Mutual Insurance Company for the purposes to be served by a Captive Insurance Company.

A Reciprocal usually requires at least 100 subscribers before it can be formed. In some states this requirement is 1000. Obviously, if the Parent Organization is a single corporate entity, formation of a Reciprocal is impossible. However, a few reciprocals have been formed that were able to meet these requirements and have been quite successful.

From a tax standpoint a Stock Company is taxed in the same manner as its Parent, i.e. regular Corporation taxes are charged on its Underwriting and Investment earnings. However, reserves for incurred losses and unearned premium reserves are deductible items and any earnings from municipal or state obligations are deductible. A Mutual Company pays its tax based upon 1% of its gross premiums or regular corporate tax on its investment gains, whichever is larger. In actual practice, with proper selection of reserves, the taxes paid by a stock company as versus a Mutual Company are very nearly the same. A Reciprocal Company is very nearly a tax free entity. However, if one of the reasons for forming a Captive Insurance Company is to keep the profits invested in the Captive, a reciprocal is not the proper vehicle because the Internal Revenue Service charges a confiscatory tax of near 90% on investment earnings in excess of $50,000.00 for a reciprocal.

It must be remembered that Insurance Companies by their very nature and by superimposed state laws pose unusual accounting problems. The normal accountant would be lost in attempting to audit an Insurance Company and would be in very serious trouble in attempting to keep the books of such an organization. Insurance Departments are very interested in exactly who will do the accounting of any Insurance Company and if they are not satisfied as to the experience and qualifications of the Accountant, will refuse a Charter. Therefore, it is mandatory that anyone attempting to form a Captive Insurance Company, secure the services of a well experienced Insurance Accountant.

Rating procedures of a Captive Insurance Company are not complicated. Public Law 15 requires that rates be non-discriminatory, inadequate or excessive. A Captive may subscribe to the local State Rating Bureaus and many do, but it does not follow that a Captive Insurance Company must join such an organization. First of all, many areas of insurance rating are not subject to regulation. If the deductible on a policy is at least $100,000.00, most States waive jurisdiction over the rates. Certain classes of Inland Marine Insurance are uncontrolled and all classes of wet marine are uncontrolled. In addition, no protest rate filling on individual risks are allowed in many states. Since the Parent Company would be the only aggrieved party in a no protest rate filing, it is safe to assume such a filing would be approved at the expiration of the waiting period provided by State Law. However, the method of rating should be thoroughly discussed with the reinsurance market and with the Rating Section of the State Insurance Department *before* forming the Captive rather than receiving a disapproval of the plan after the Company is formed. This could be expensive if improperly handled.

Summary

In summary, Captive Insurance Companies will not work for every corporate insurance program, however, if after a thorough study of the subject, the Parent Company decides to proceed with the formation of a Captive Insurance Company, it will be travelling a well worn path of success. I can vividly recall the comments of one Insurance Manager who, while riding in the elevator with the President of his Company, was asked, "What's new in the Insurance Department?" The Insurance Manager was nonplussed. In actuality he could only tell the President how much premium his department had spent and how much in losses it collected — all negative results. After forming a Captive Insurance Company, this same Insurance Manager has become an officer of the Captive Insurance Company and can now proudly report at the directors meetings the profits his department now accounts for in the overall operations of the Parent Company. In other words, he now heads up a department that produces a profit whereas before his department was a necessary overhead expense.

(Address before Chicago Chapter, ASIM, April 21, 1960.)

Business Established 1842

THE ATLANTIC COMPANIES

Marine, Fire and Casualty Insurance

CONDENSED STATEMENTS AS OF DECEMBER 31, 1959

From reports made to the New York State Insurance Department

Trustees—Directors

FRANKLIN B. TUTTLE, *Chairman of the Board* — MILES F. YORK, *President*

DALE E. TAYLOR, *Executive Vice-President*

J. ARTHUR BOGARDUS, *New York*

ELLSWORTH BUNKER (*on leave*), *Ambassador to India*

GEORGE A. BUTTS, *Boston, Massachusetts*

JOHN B. CLARK, *President, Coats & Clark, Inc.*

WILLIAM M. CRUIKSHANK, *Honorary Chairman of Board, Cruikshank Company*

CLEVELAND E. DODGE, *Vice-President, Phelps Dodge Corporation*

RAYMOND H. FOGLER, *President, Board of Trustees, University of Maine*

J. PETER GRACE, *President, W. R. Grace & Co.*

E. ROLAND HARRIMAN, *Partner, Brown Brothers Harriman & Co.*

J. FRANK HONOLD, *Vice-President, The Chase Manhattan Bank*

J. B. S. JOHNSON, *Chairman of Board, Otis, McAllister & Company*

RICHARD H. MANSFIELD, *Partner, Lazard Freres & Co.*

CLARENCE G. MICHALIS, *Trustee, The Seamen's Bank for Savings*

JUNIUS S. MORGAN, *Director, Morgan Guaranty Trust Co.*

THOMAS A. MORGAN, *New York*

M. NIELSEN, *President, The Babcock & Wilcox Company*

MARVIN PIERCE, *Time Magazine*

MAX J. H. ROSSBACH, *Partner, J. H. Rossbach & Bros.*

GEORGE M. SCHURMAN, *President, The National Bag Corporation*

JOHN E. SLATER, *Partner, Coverdale and Colpitts*

JOHN SLOANE, *New York*

HERRIOT SMALL, *Vice-President*

BENJAMIN STRONG, *Chairman of Board, United States Trust Co. of New York*

ALAN H. TEMPLE, *Vice-Chairman, The First National City Bank of New York*

JOHN C. TRAPHAGEN, *Trustee, The Bank of New York*

CHARLES T. WILSON, *Chairman of Board, Charles T. Wilson Company, Inc.*

Atlantic Mutual Insurance Company

ADMITTED ASSETS

Cash in Banks and in Offices		$ 3,969,959
Securities:		
United States Government	$21,567,530	
Other Bonds	20,934,356	
Preferred Stocks	3,458,620	
Common Stocks	17,963,017	63,923,523
Stock of Centennial Insurance Company (owned 100%)		7,015,699
Premiums Receivable not over Three Months Due		3,372,846
Other Assets		3,757,740
Total		**$82,039,767**

LIABILITIES

Reserves:		
Claims and Claims Expense	$19,819,775	
Unearned Premiums	21,126,064	
Expenses and Taxes	1,291,872	
Reinsurance in Non-Admitted Companies	271,874	
Miscellaneous	720,466	$43,230,051
Cash Dividends Declared but not Due		1,616,998
Other Liabilities		5,071,206
		$49,918,255
Voluntary Reserve	$22,121,512	
Guaranty Fund	3,000,000	
Surplus	7,000,000	
SURPLUS AS REGARDS POLICYHOLDERS		32,121,512
Total		**$82,039,767**

United States Government Bonds carried at $729,463 are deposited for purposes required by law.

Securities are carried at values prescribed by the National Association of Insurance Commissioners. On the basis of December 31, 1959 actual market quotations for all securities owned, total Admitted Assets would amount to $77,256,497.

Centennial Insurance Company

ADMITTED ASSETS

Cash in Banks and in Offices		$ 1,217,896
Securities:		
United States Government	$ 7,449,514	
Other Bonds	7,524,798	
Preferred Stocks	854,600	
Common Stocks	3,966,672	19,795,584
Premiums Receivable not over Three Months Due		1,124,282
Other Assets		1,426,037
Total		**$23,563,799**

LIABILITIES

Reserves:		
Claims and Claims Expense	$ 6,606,592	
Unearned Premiums	7,042,021	
Expenses and Taxes	430,658	
Reinsurance in Non-Admitted Companies	90,625	
Miscellaneous	193,328	14,363,224
Other Liabilities		2,184,876
		$16,548,100
Voluntary Reserve	$ 870,181	
Capital	1,500,000	
Surplus	4,645,518	
SURPLUS AS REGARDS POLICYHOLDERS		7,015,699
Total		**$23,563,799**

United States Government Bonds carried at $960,095 are deposited for purposes required by law.

Securities are carried at values prescribed by the National Association of Insurance Commissioners. On the basis of December 31, 1959 actual market quotations for all securities owned, total Admitted Assets would amount to $22,281,061.

***Home Office:* 45 Wall Street • New York 5, N. Y.**

Federal Regulation—Maloney

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some modification, on the "All Industry-Commissioners Bills" recommended by the National Association of Insurance Commissioners. It is significant to note that the drafting committees of the NAIC recognized the underlying Congressional intent that while companies could act in concert, competition should be maintained. On this point, the Joint Report of the Committees states:

> "In order to insure competition and to effectuate the intent of Congress that there be competition in the business . . . The bill should provide for the freest possible use of bureau facilities by both members and subscribers, and unfairly restrictive rules should be eliminated. We regard as contrary to public policy provisions unduly restricting the activities of companies simply because they use bureau facilities."

Thus we see that so far as the Commissioners' drafting committees were concerned, the philosophy of the model rating laws was to strike a balance between the stability achieved by collaboration in rate making and the freedom to act independently for companies which wish to do so. Their reports indicate they clearly realized that Congress would not be satisfied with regulation which merely allowed the insurance companies to continue doing business as they had in the past.

It will be noted, too, that the exemption from the four federal statutes specified is a limited or qualified exemption, i.e. to the extent that the insurance business is regulated by state law. In paraphrasing this limitation or qualification, President Roosevelt, as indicated, expressed it thusly: "To the extent that the states have assumed the responsibility, and are effectively performing that responsibility".

The addition by the President of the standard that the states "are effectively performing that responsibility" finds its basis in the rather extended Congressional debate surrounding this crucial proviso in Public Law 15, which lends some credence to the argument advanced before the Supreme Court's recent decision in the National Casualty Case that state legislation alone was not sufficient to oust the applicability of the federal statutes and that crystalization of such state legislation into administrative elaboration of standards of conduct and application in individual cases — in other words, adequate and effective enforcement by the states of their statutes and regulations — was required. And, finally, as in the case of all statutory statements of principles in broad terms, the exact intent of Congress with regard to interstate insurance practices which the states by reason of territorial limitations of jurisdiction cannot for constitutional reasons regulate effectively was left by Public Law 15 for future judicial determination.

Since the first and foremost principle established by the SEUA case is the supremacy of the power of Congress to regulate insurance, so far as it is interstate in character or affects interstate commerce, and since the exemption from federal regulation granted by Congress in Public Law 15 is not an outright exemption but rather a limited and qualified exemption, it was not to be unexpected that after more than a decade of experience with regulation of the insurance industry by the states under the post-SEUA concepts and new order of things, Congress should review the record of performance by the states to determine whether the public interests has been protected in the respects intended by Congress and, according to the language of their reports, intended by the committees of the NAIC that drafted the model rate regulatory laws.

Hence, the so-called investigation into the effectiveness of state regulation of insurance under Public Law 15, by the Sub-Committee on Anti-trust and Monopoly of the Committee on The Judiciary of the U. S. Senate that has been in the forefront during the past 18 months or so and which, together with the activities of the Federal Trade Commission and the court decisions resulting therefrom, is responsible for my discussion of this matter of federal regulation of the insurance industry.

Adverting, first, to the area of Federal responsibility created by

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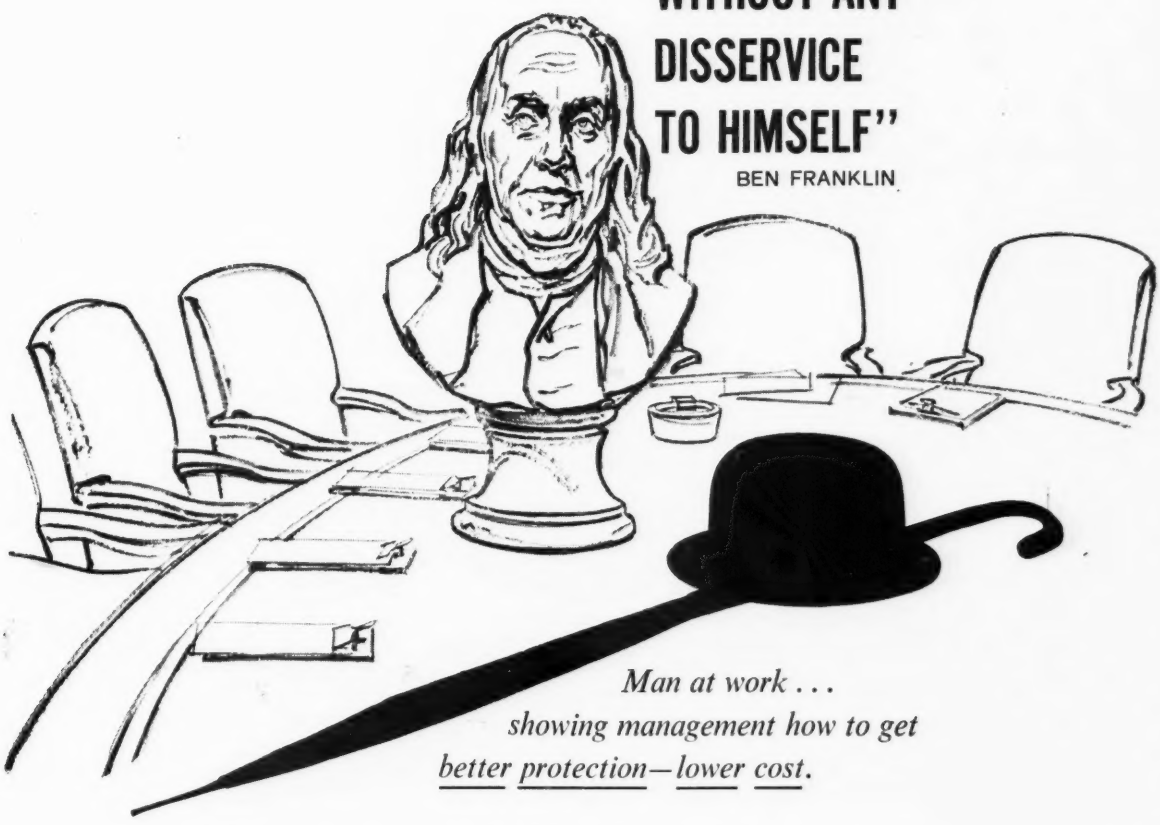
"WHERE EVERY MAN MIGHT HELP ANOTHER WITHOUT ANY DISSERVICE TO HIMSELF"

BEN FRANKLIN



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Connecticut Valley Chapter, ASIM Re-Elects Officers for 1960-1961

All officers of Connecticut Valley Chapter, ASIM were re-elected at a recent meeting of the chapter:—Darrell Ames, Eastern States Farmers' Exchange, Inc. president; Hervey Chevrette, Scovill Manufacturing Company, vice-president; David C. Benson, Whitney Chain Company, treasurer; and Annetta Merlino, City of Hartford, secretary.

Insurance Buyers Association of Pittsburgh Elects New Officers

The Insurance Buyers Association of Pittsburgh, ASIM elected John R. Kountz of The Rust Engineering Company, president.

Serving with Mr. Kountz are: 1st Vice President: T. G. Noel, Westinghouse Electric Corporation; 2nd Vice President: A. V. Eannarino, Pittsburgh Steel Company; Treasurer: L. F. Kane, Equitable Gas Company; and Secretary: Richard F. Francis, Westinghouse Air Brake Company.

Newly elected directors are: H. Henderson, Mellon National Bank; J. R. Kountz, The Rust Engineering Company; and R. Miller, Koppers Company.

Hold-over directors are: E. V. Eannarino, Pittsburgh Steel Company; S. Kavas, Mine Safety Appliances Co.; T. G. Noel, Westinghouse Electric Corporation; M. E. Reed, Pittsburgh Plate Glass Company, S. J. Prentice, Gulf Oil Corporation; and E. A. Rengers of Blaw Knox Company.

R. C. Lee is President of Houston Society of Insurance Management, ASIM

Effective July 1, 1960 R. C. Lee of Sheffield Division of Armco Steel Corporation is president of Houston Society of Insurance Management, ASIM. Mr. Lee succeeds William A. Holcomb, Jr. of Transcontinental Gas Pipe Line Corporation.

Serving with Mr. Lee are: Frank G. Cox, Schlumberger Well Surveying Corporation, vice-president; William D. Smith, Bank of the Southwest National Association, treasurer; A. R. Fathman, Anderson, Clayton & Co., assistant secretary; and Robert T. McCarthy, Tennessee Gas Transmission Company, secretary.

Board of Directors

On the Board of Directors are: Ralph Johnson of Ada Oil Company; George P. Jackson of Dow Chemical Company; R. W. Vickrey, Hughes Tool Company; L. W. Gray, Texas Manufacturers Association; Fred L. Hillis, Anderson, Clayton & Co.; and Fred A. Randall, Union Carbide Chemical Company.

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No amount of luck can prevent a costly fire, if you've failed to take proper precautions. Remember . . . three men or one man, unschooled in the hazards of careless smoking, are equally dangerous. This is one of the reasons why Manufacturers Mutual Loss-Prevention Engineers make every effort to see that *all* personnel in our Policyholder Members' plants are thoroughly and *regularly* alerted to smoking dangers. There is little doubt but what their efforts have been instrumental in reducing Smoking and Matches from second to fifth place among the causes of industrial fires in recent years.

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Kansas

Nationwide Trailer Rental System, Inc.

Federal Regulation—Maloney

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Public Law 15 beyond direct control over boycott, coercion and intimidation, in the dual system of federal-state regulation of insurance created by that Act, the United States Supreme Court has handed down two decisions since the Anti-Trust Subcommittee began its study, in cases involving trade practice prosecutions of insurance companies by the Federal Trade Commission, in which it has interpreted the crucial statutory language "to the extent that such business is not regulated by state law" and has thereby delineated, to some extent, the limits of federal jurisdiction which theretofore had been somewhat cloudy.

In *Federal Trade Commission v. National Casualty Company,* decided June 30, 1958, the court rejected the argument of the government that the mere enactment of state prohibitory laws which were not implemented by some kind of administrative action did not oust the FTC from jurisdiction. The court held, in effect, that it is the existence of state regulatory legislation, and not the effectiveness of such regulation, that is the controlling factor. In that case, the court held that Public Law 15 withdrew from the Federal Trade Commission the authority to regulate advertising mailed from the home office of an insurance company to its agents in the several states in which it was licensed and disseminated there by such agents, and where such states had adopted regulatory legislation applicable to advertising by insurance companies doing business therein.

But whereas the *National Casualty* decision further attenuated federal administrative authority over the insurance business, the more recent decision of the court in *Federal Trade Commission v. Travelers Health Association,* handed down on March 28, 1960, — less than a month ago — is in the opposite direction. There, a strictly mail order insurance business was involved and it was con-

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Travel Insurance — Jones

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bursed, otherwise, the employee would receive the weekly indemnity.

You will note that I have not discussed workmen's compensation but I am sure you all realize that the employee is considered to be on company business even though such travel extends beyond his normal working day. In California the Workmen's Compensation Commission usually regards such trips as company business and therefore compensable under the Workmen's Compensation Act. This means that the corporation is required to pay all medical expenses, plus weekly indemnities. Your policy should be so worded that the corporation is reimbursed for such expenses first and any remainder be for the benefit of the employee or in the event of a fatality, to his beneficiary.

Now here again, care must be exercised so that any benefit payments under your travel policy do not run afoul of the Internal Revenue Bureau from a tax standpoint. The policy of my company operates under an IRB ruling that such benefit payments are insurance payments, and are not subject to tax. Also, the premium paid for such insurance policy is deductible as operating expense, since such premium expenses are incurred in connection with the taxpayers trade or business. In operating a travel plan where money is paid to a beneficiary it is best to have in your files a signed "designation of beneficiary" by the employee. uch a designation speeds up receipt of the insurance payment, prevents possible squabble among heirs and avoids payment to an estate where distribution is subject to delay, inheritance taxes and lawyer fees all of which reduce the amount of cash eventually paid the heirs.

If your corporation operates its own plane or helicopter, or has employees who use their own or rented planes in company service — take a good look at your insurance policies. Most aviation or travel policies exclude coverage where such operations are conducted by the corporation or its employee — in fact, quoting from a policy, the exclusion reads: *"Providing such aircraft is not owned or operated by the named insured, the employee or any member of the employee's household . . ."* This exclusion may be removed from your travel policy if you operate planes or helicopters, but be ready to pay a substantially higher premium. The reason behind the thinking of the insurance company for this extra premium is that they lose the right of recovery, or call it subrogation if you wish, against an operator from whom you are either renting or chartering such plane or helicopter. The travel policy you have on your employees becomes an "admitted liability" and the insurance company has no recourse of recovery.

Most current travel policies have been broadened to include almost all modes of public transportation, so you will find that travel by rail, ships or inter-city buses are usually added at no extra cost. Your policy should have clauses that include occurrences on premises of heliports, airports, railway, harbor or other similar terminal premises when used for the purpose of beginning a trip, continuing a trip, or ending a trip. Furthermore, your policy should be endorsed to extend the coverage while the employee is occupying public transportation again when beginning, continuing or ending a trip. Please note that company and personally owned automobiles are not considered public transportation and if used to or from terminals, which is often done, the employee's travel insurance is not in effect.

An exceptionally good clause to have attached to your travel policy is what we call the "Sojourn Clause". This clause stipulates that the employee's route may be so laid out that its deviation from the shortest route for personal or other business is permitted. Here is the actual wording of such a clause:

> "The phrase 'during travel and sojourn on the business of the named insured' . . . shall mean any bonafide trip made by the employee on assignment by and/or authorization of . . . (the company) . . . for the purpose of furthering the business interest of (the company) . . . and shall be deemed to include any route or deviation from the most direct routes for personal convenience or otherwise, which is authorized by . . . (the company)."

Southern California Edison Company, as a utility company has, of course, various individual problems and one that we thought might be of interest to other utilities is that of transporting men for overhauls or emergency work. Our problem was this: Our main shops are located in Alhambra and if an emergency or burnout occurred at one of our Big Creek plants, 240 miles north, or at the Boulder Plant, 600 miles southeast, we would transport a repair crew from Alhambra to the plant requiring repairs. This same transportation move would be made of teams for major overhaul jobs. Our travel policy, to be sure that these men who are temporarily assigned at these locations are not covered while traveling between the plant and their place of temporary habitation, such as from Boulder Dam, where the power plant is located, to Boulder City where they are quartered, or from Big Creek Townsight to the lower power houses where there are no accomodations, are excluded by an endorsement to the effect that the policy shall not apply to common laborers while performing the normal duties of their trades while actually at work at their designation site. They, of course, would be covered while enroute to and from Alhambra, their home base and by Workmen's Compensation while at the job site

Another interesting extension ot a policy should be made to make the travel policy effective when an employee actually starts an anticipated trip whether it be from the employee's place of employment, his home or other location. The coverage should, of course, terminate upon his return to his home or place of employment, whichever shall occur first. By such an en-

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Travel Insurance — Jones

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dorsement an employee who leaves his home at night or early morning is fully covered for his trip.

Rail travel for corporate employees has taken a terrific drop in the last few years which is not the fault of the railroads as they have carried on an extensive program of speeding up their schedules, improving the types of cars they used and in general have made general improvements to entice the use of their facilities. But to a corporation, a man's time is valuable and if he can get to a distant city and home again in a few hours by flying, against several days by train, you can understand why, for business reasons, their passenger volume has dropped. While speaking of trains, they are also subject to accidents, some most severe, but probably not as fatal to a large number of its passengers at one time as occur in plane accidents. I believe their greatest results are in injuries as has been brought out by two different types of accidents suffered by the Santa Fe Railroad in California. One was when a Los Angeles-San Diego Commuter type self-contained rail coach left the rails when negotiating a slow speed curve near Los Angeles while traveling at a high speed. The ratio of persons killed to those injured was very low, although it was a terrible accident. Again, in a recent crossing accident near Bakersfield when a streamliner struck a gasoline truck resulting in a wreck and fire, the ratio of persons killed to those injured was again low, considering the number of people involved and the severity of the accident. This emphasized the fact that medical, weekly indemnity and dismemberment payments are an important coverage and should be incorporated to the writing of your corporate travel policy.

Travel by ship may seem unnecessary but some day you may be surprised to find some of your employees traveling to Hawaii to attend a convention but as such travel is infrequent, the insurance companies do not usually add any cost to their premium base when negotiating costs.

Inter-city bus travel is in the same category as ship travel. It is used very little but is well to have on your policy as there is always that possibility that some one will use that service and again it is usually a policy concession without additional premium cost.

I have deliberately not discussed 24-hour coverage under the company plan as very few corporations use this type of coverage preferring to have the employee obtain his own insurance of this type for his "off hour activities" while on a trip. Actually, it really comes under the second category, pleasure travel.

Pleasure Travel Insurance

This is a very broad form of coverage, usually taken out to cover the whole family and is in force for the full 24 hour day. Actually, it is nothing more than a straight accident policy written on a short term period for a specific trip and the premium usually is exceedingly low, particularly when compared to the 25-cent machines at the airport which only cover an individual and not the family and then only during the time the individual is at the airports or in the plane or planes to complete a specific flight journey.

Most brokers, for a very reasonable premium, will also issue an all risk policy to cover your luggage and personal effects such as lost hats, coats, cameras and even the travel clocks you forget to pack when you leave the hotel. Jewelry, precious stones, furs, special cameras and equipment, golf clubs and currency are best insured as specific items under an all risk policy. These items so insured, would be on a value basis and their loss therefore quickly paid in full amount.

An example: A valuable wrist watch was lost while traveling. The company challenged the circumstances of the loss under a theft policy. The evidence showed that the insured, a lady, while traveling in Europe attended an "Oktoberfest" in Munich. With her husband she went to the fair grounds and unfortunately found a crowd of boisterous and inebriated persons. Entering one of the brewery houses they attempted to make their way toward a table. It was part of the spirit of the occasion that strangers danced with one another and the insured was grabbed and swung around by several people. Immediately after one such incident she noticed that her watch was missing. The stranger with whom she was dancing had disappeared in the crowd. In her claim it has shown that for more than 10 years she had worn the watch, it had never fallen from her arm. She had even worn it while playing tennis. In the suit for recovery the court held that the loss was attributable to wrongful taking and her claim was allowed. If this had been an all risk policy, the suit would have been avoided.

Getting back to air travel, I think you would be interested if I related a little history on the settlement of claims for deaths that take place from airplane accidents. Strangely enough, without insurance your chances of recovering damages from an airline company may be less than those from a ground accident.

The first known airplane case suit was brought in in 1900 against Count Zeppelin. It did not, of course, involve an airplane but a dirigible. Shortly after landing, a thunder storm came up in which the Count's ship broke loose from her moorings, and a dragging ship's anchor caught a spectator and took him into the air. After successfully wiggling loose, he fell to the ground and injured a leg, which was subsequently amputated. The court at that time ruled that the Count had taken all adequate precautions known to that new science of aviation and was not bound to anticipate the extraordinarily strong gust of wind that drove his ship away from the moorings, therefore, the Count was not liable for extensive liability.

Another example happened recently over Pennsylvania when an airliner fell 300 feet in an air pocket and two passengers bumped their heads sharply on a cabin roof.

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Travel Insurance — Jones

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The District of Columbia ruled that the airline had taken adequate precaution and that "a passenger assumes the risk necessarily incident to travel in the air known as perils of the air", and denied negligent damages.

In 1929 because of the scarcity of uniformity in International Law regarding personal injuries to air line passengers, there was held a convention for the unification of certain rules relating to international transportation by air. Delegates from France (Air France), England (B.O.A.C.), Italy (Air Italia) and the U.S.A. (Pan American, TWA, American Airlines, etc.) agreed to rules which are now known as the Warsaw Concordat, Unfortunately, a limitation of liability of 125,000 French francs, or approximately $8300, was placed for an injured or killed passenger on international airplane travel. That still is the prevailing decision and in the case when Jane Froman, the singer who recently received a jury verdict of $125,000 for injuries incurred in an air crash in Portugal, the court considered itself governed by the Warsaw Concordat and reduced her award to $8300.

William Kapell, the world wide renown pianist was killed in a plane flying from Australia to the U.S.A. The plane crashed in the hills back of the San Francisco airport. His heirs received $8300, however, if Mr. Kapell had been killed in an automobile accident in San Francisco, rather than on an international flight, there is little doubt that the heirs would have collected close to one-half million dollars.

One airline at the present time, the Japanese Airlines, has endeavored to rectify this Warsaw Concordat Agreement by carrying $100,000 on each of the passengers carried in its plans on international flights. Others have similar plans under consideration.

While the Warsaw Concordat limits the awards payable to victims of airline accidents, juries rendering verdicts use the convention limitation as a criterion, so if you are going to be involved in an accident, try to pick an enlightened and up-to-date state in which to crash, such as Nevada, Wyoming, Utah or California, as these States have no statutory limits or observe the Warsaw Concordat on the amount of awards. Some other states have maximum limits of liability on air accidents such as Colorado, which has just raised its limits of the amount that can be collected by heirs from airline accidents, from $5,000 to $10,000, therefore, if you have a $200,000 injury award in Colorado, you will only receive $10,000. In Oregon, the maximum is $20,000. Awards in Illinois and Kansas are limited to $25,000.

I hope this gives you a few high lights on travel insurance and a few of the pitfalls to watch for. With our country on the move as it is today, travel is necessary both for business and pleasure and I do hope that your journeys will be profitable, pleasant and always safe.

Sam B. Garwood Succeeds Ed Alstaetter as President of Central Ohio Chapter, ASIM

Sam B. Garwood of Columbus & Southern Ohio Electric Company was elected president of Central Ohio Chapter, ASIM, succeeding Ed Alstaetter.

Serving with Mr. Garwood are: C. B. Rogers, Peoples Broadcasting Corporation, vice-president; Bruce C. Behmer, The Jaeger Machine Company, treasurer; and James A. Biggerstaff, Anchor Hocking Glass Corporation, secretary.

Directors are: Reid Heischman of Jeffrey Manufacturing Company; and R. C. Boehnke of Clark Industries. Mr. E. W. Altstaetter of North American Aviation, Inc., was re-elected a Director of The American Society of Insurance Management, Inc., representing Central Ohio Chapter.

Federal Regulation—Maloney

(From Page 33)

tended that legislation by the domiciliary jurisdiction regulating the extra-territorial activities of its domestic insurers operated to oust federal jurisdiction under Public Law 15.

The Supreme Court rejected this contention, stating that it could not believe Congress intended that this kind of law of a single state takes from the residents of every other state the protection of the Federal Trade Commission Act. The court held that the state regulation which Congress provided should operate to displace the federal law means regulation by the State in which the deception is practiced and has its impact. Candidness on the part of even the most ardent advocate of continued state regulation — and I am one of them — would seem to require frank acknowledgment that mail order insurance has always been a thorn in the side of effective state regulation.

Whether or not one agrees with these decisions of the United States Supreme Court, they have now made it fairly clear that, contrary to the fear expressed in the recently published (March 15, 1960) report of the Anti-Trust Subcommittee, there is no "supervisory vacuum" in the dual system of federal-state regulation of insurance under Public Law 15, and the Federal Anti-Trust and related statutes apply in the absence of regulation by the state where the business activities have their operative force.

In passing, another decision of the United States Supreme Court interpreting Public Law 15 as not ousting federal administrative jurisdiction was the opinion in *Securities and Exchange Commission v. Variable Annuity Life Insurance Company*, decided on March 23, 1959. But there the majority of the court held that variable annuity contracts are not contracts of insurance but securities, and, therefore, not exempt from federal regu-

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Federal Regulation—Maloney

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lation by virtue of the exemptions stated in Public Law 15, the Securities Act and the Investment Company Act. However, four of the nine justices dissented and were of the view that federal jurisdiction was ousted by Public Law 15 as well as by the specific exemption of insurance contracts from the Securities Act and Investment Company Act.

Thus we see that Public Law 15 itself created a dual system of federal-state regulation of insurance. It expressly and unequivocally imposes direct federal regulation in respect to boycott, coercion and intimidation in interstate commerce or affecting interstate commerce. In other areas, the outer limits of federal jurisdiction over the insurance business under Public Law 15 are not precisely defined, but this much appears certain, that federal regulation of interstate insurance does not exist concurrently with or as a supplement to state regulation of the same business activities except that it does exist in the absence of regulation of such activities by the state where they have their operative force.

But the currency of the question of federal vis-a-vis state regulation of the insurance industry is not brought about solely by reason of the court decisions delineating the area of federal responsibility under Public Law 15. As I have previously indicated, the inquiry being made by the Anti-Trust Subcommittee of the U. S. Senate is directed to ascertaining the *effectiveness* in fact of state regulation of insurance since the enactment of Public Law 15. In their own words, the study by the subcommittee also "provides an opportunity to measure the effectiveness of competition as a regulator of the insurance industry."

The subcommittee has not as yet completed its study and, until it does, its final report and recommendations are in the realm of pure conjecture. But it has held hearings and asked questions of witnesses and adduced evidence. In addition, some of its members and staff have made public addresses adumbrative of the subcommittee's inquiry. And, of course, the subcommittee has published its preliminary or interim report dated March 15, 1960. From all of these we can only glean the apparent thinking of the subcommittee staff and majority.

If any one impression stands out more than others, in my analysis of the line of questioning at the hearings and of the speeches that have been made, it is that there are some rather serious misgivings within the subcommittee membership and staff, whether freedom of competition in accordance with the desires of Congress and the professed intent of the Commissioners' drafting committees, through deviations and independent actions and filings, in fact has been permitted and realized under the rating laws adopted by the states and the administration thereof.

More specifically, there exists undisguised skepticism as to the role played by rating bureaus, particularly in the fire insurance field, and the indications that they and the rates and rating procedures promulgated by them enjoy a sacrosanct status that impedes or restrains free competition through independent action.

Although the preliminary report of the subcommittee is somewhat brief and general, it specifically noted for "special attention" by the subcommittee the role played by rating bureaus and that "a group of independent insurers, representing both large and small companies, presented testimony complaining about concerted efforts to restrict independence of action, primarily in the fire field, and the way various state laws have been utilized to accomplish this result."

Remarks by Donald P. McHugh, counsel for the subcommittee, in speeches made by him rather pointedly suggest a feeling that, granting the need for some concert of action between insurers in the rate making process, the activities of rating bureaus under the existing pattern of state regulation, particularly in the fire insurance field, extend beyond the minimum necessary and may very well constitute unreasonable restraints on interstate commerce in insurance contrary to the public interest.

In his address before Zone 5 of the NAIC on April 3, 1959, Mr. McHugh suggested that serious consideration be given to a basic change in the rate regulatory philosophy in which the bureau function would be reduced to the minimum of gathering statistics and the development of pure premiums below which no insurer would be permitted to charge, and to which each company would independently add its own expense loading to arrive at its own independent, final rates. This concept of the rating bureau's place in rate making did not originate with Mr. McHugh. It was also advanced by the Department of Justice in its brief in the SEUA case, back in 1944. The suggestion is on the agenda of the so-called Gerber Subcommittee of the NAIC for consideration. (Incidentally, that subcommittee will hold a meeting in San Francisco some time during the latter part of May of this year.)

Mr. McHugh reiterated this suggestion in his address before the National Association of Insurance Agents in September of 1959 and added the following comment:

> "Those who petition the Congress for help seek only freedom to pursue an independent course of action."

According to Mr. McHugh, the Congressional petitioners want a regulatory atmosphere which offers free rein to those who want to make insurance rates in concert but which permits equal opportunity to determine rates independently without being "shackled and hamstrung by rating bureaus. They oppose the regulatory philosophy which treats them as second class citizens."

"They resist the notion that bureau filings be considered paramount," he said, "and that proponents of greater competition bear a heavier burden in justifying rate competition. It is a claim only for

parity with those who collaborate to set rates. If state regulation cannot achieve such a balance in the practical administration of the rating laws, Congress may have no alternative but to move into the breach with forceful legislation."

More recently, Mr. McHugh spoke at Arizona Insurance Day at Tucson on the subject of insurance company mergers. He saw "most significant" and "ominous implications" of danger to the public from the recent number of insurance company mergers and their possible impact upon competition. He expressed a doubt — and correctly so, in my opinion — that many such mergers are ever appraised by State Insurance Commissioners in terms of their competitive impact and he advanced the thought that the federal government should have a "preferred" position in the supervision of insurance company mergers, saying that extention of federal authority in this area "poses no threat to state regulation."

The varying areas of inquiry into which the Anti-Trust Subcommittee has delved to date, and other pointed comments by subcommittee members and staff, would make for interesting discussion, indeed. But limitations on our time bring us rather directly and abruptly to the question whether any further federal regulation of the insurance industry of a direct and significant nature is apt to result from the activities of the subcommittee.

In my humble opinion, it will not, and I say this with all due deference to the subcommittee and its highly intelligent technical staff, who have certainly demonstrated their skill and ability to find the weak spots in the existing pattern of regulation.

In his speech before Zone 5 of the NAIC a year ago, Mr. McHugh himself acknowledged that the trend is away from federal regulation of insurance. He pointed out that many segments of the insurance industry, for reasons which may be perfectly valid, have been insulated in large measures from the invigorating atmosphere of real competition, particularly at the rate or price level, and he indicated that a purpose of the study by the subcommittee was to illuminate soft spots where competition has not achieved its maximum utility; that only in this way can government, federal and state, intelligently approach regulation in the public interest.

In his speech before the National Association of Insurance Agents seven months ago, Mr. McHugh is reported to have observed that further regulation of the insurance industry at the federal level would probably create more problems than it would solve and to have acknowledge that, inevitably imposition of federal controls diminishes the vigor of private enterprise, pointing out that insurance,

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Federal Regulation—Maloney

(From Page 39)

though vested with a public interest, is not a public utility, and free competition remains the prime regulator for non-public utility private enterprise. Only his recent remarks about insurance company mergers are in the direction of specific supervision at the federal level.

Also of significance, in my opinion, is the fact that, without exception, all of the witnesses before the committee who complained about concerted efforts to restrict independence of action, primarily in the fire field, nevertheless strongly advocated and supported continued state regulation in their testimony.

Just as the SEUA decision and the congressional prohibition of boycott, coercion and intimidation brought about abandonment of acquisition cost conferences and substantially complete elimination of such obviously coercive rules and restraints upon free trade and commerce as the "single counter rule," the "limitation of agency rule," the "non-intercourse rule," the "in or out rule," the "separation rule," so also, in my opinion, will be Anti-Trust Subcommittee study bring about further basic changes in state regulatory philosophy, particularly in the matter of regulation of rates that will redound to the over-all public interest and thereby strengthen and further preserve state regulation.

The subcommittee study, in my opinion, will create a renewed consciousness on the part of the states and their regulatory officials, the Insurance Commissioners and Superintendents, of the paramount policy of Congress, who remains the ultimate judge of the system, against restraints on free trade and competition. This is already apparent in the action of the NAIC at its June, 1959 meeting declaring that it is in favor of "vigorous, lawful competition as to rules, rates and forms, subject to regulation by the states in the public interest and supports the principle that affiliation with a rating organization should not affect the freedom of an insurer to file independently any multiple line package."

Just as open jurisdictional disputes between labor unions, are in my opinion at least, harmful both to the paramount public interest and the over-all best interests of the organized labor movement itself, competition between the state governments and the executive or administrative branch of the federal government over regulatory jurisdiction of the insurance business is not good for either the public or the industry. I for one have enough confidence in the intelligence of Congress to believe that it will recognize this and, rather than additional federal regulation in specific areas, I expect the subcommittee study to bring about a restatement by Congress, possibly in the form of an amendment to Public Law 15, of the principles and objectives which it expects to be attained, as a guide for the states and the industry to the type of regulation and conduct that will tend to preserve state regulation and help discourage practices which could lead to congressional criticism or to restrictive legislation.

Although it is human nature to resist it, nothing is more certain in life than change. One of the major arguments for state regulation of insurance is that it is closer to the people and, therefore, more responsive to their changing problems and needs. Although a decade and a half has elapsed since SEUA and the enactment of Public Law 15, the far-reaching adjustments necessitated thereby are still in process. While far from perfect, state regulation on the whole has done a creditable job in meeting the challenge during this trying and continuing period of adjustment. It is my opinion that the Anti-Trust Subcommittee of the U. S. Senate will not recommend curtailment of state regulation of insurance in favor of greater federal regulation but, rather, will take the lead in furthering the cause of state regulation of insurance by lighting the way for its further strengthening and greater effectiveness in carrying out the paramount public policy fixed by Congress. But I am also of the opinion that Congress will make clear its intention never to relax in its surveillance of the effectiveness of state regulation in carrying out the policies and accomplishing the objectives fixed by Congress, so that congressional supremacy and its paramount right to preempt the insurance regulatory field will remain an omnipresent threat as a certain-to-follow alternative to inadequate or ineffective state regulation.

Karl F. Abendroth Is Elected President of Wisconsin Chapter, ASIM

At a meeting of Wisconsin Chapter on May 26th, Karl F. Abendroth (Milwaukee & Suburban Transport Corporation), was elected president of the chapter, succeeding Joseph R. Hilmer of S. C. Johnson & Son, Inc.

Other officers are: Vice-President: John H. Lungren (Clark Oil & Refining Corporation); Treasurer: Joseph A. Hussa (First Wisconsin National Bank); and Secretary: Howard G. Doersching (Milwaukee Gas Light Company).

Directors

Incumbent directors are: Karl F. Abendroth, Joseph R. Hilmer, John H. Lungren, and Kenneth R. Strehlow (Ed. Schuster & Co., Inc.).

Newly elected directors to serve a term of three years, expiring May 31, 1963 are: Dale M. Houmes (Outboard Marine Corporation); and Robert E. Krause (Briggs & Stratton Corporation).

Other Designations

Joseph R. Hilmer of S. C. Johnson & Son, Inc., immediate past president, was named a Director of The American Society of Insurance Management, Inc., representing Wisconsin Chapter.

John H. Lungren is Chairman of the Program Committee; Kenneth R. Strehlow, Chairman of Publicity; and Robert E. Krause, Chairman of Membership.

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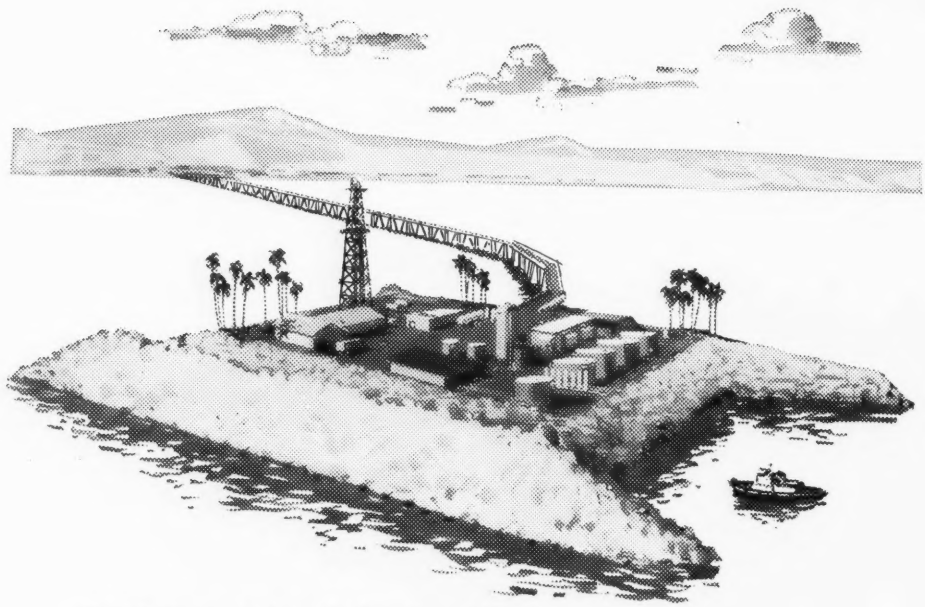

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